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SENSITIVE

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STATE FOR NEA/ELA AND EEB/IFD/ODF
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TREASURY FOR PARODI/BLEIWEISS/CORREA
USDOC FOR 4520/ITA/MAC/ONE
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SUBJECT: LEBANON: FINMIN SAYS UNITY GOVERNMENT BAD FOR REFORM
(ECONOMIC WEEK IN REVIEW, MARCH 16 - 22, 2009)

REF: BEIRUT 325

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FINANCE MINISTER FRUSTRATED
WITH REFORM DELAYS

¶1. (U) At a Paris III donor meeting on March 18, Finance Minister Mohammad Chatah said the national unity government has proven to be an ineffective model, as even the smallest decisions are politicized. The resulting government paralysis has held back the disbursement of nearly \$500 million in Paris III pledges that could have been invested across the Lebanese economy, particularly in the electricity sector, he complained (reftel).

GOL SWAPS \$2.3 BILLION
IN FOREIGN CURRENCY DEBT

¶2. (U) The GOL successfully completed a voluntary Eurobond exchange in the amount of \$2.3 billion on March 19. Chatah was clearly proud of the exchange, marveling that 83% of the holders of GOL-issued Eurobonds maturing in 2009 exchanged their bonds for longer-term maturities (2012 and 2017), while an additional \$450 million-dollar issue was two times oversubscribed. This demand for Lebanese sovereign bonds reflects investors' confidence in Lebanon's fiscal management, he said. The yields of the new bonds range from 7.5-9%. According to Moody's Investors Services, the GOL's next significant Eurobond maturity will be approximately \$1.1 billion, due in March ¶2010.

DEMONSTRATION AGAINST HIGH
GAS PRICES HAS LOW TURNOUT

¶3. (U) On March 19, bus drivers and others from the transportation sector demonstrated in front of parliament calling for a reduction

in gas prices by removing the excise tax. (Note: This tax is a USG and IMF benchmark for disbursement of Paris III pledged budgetary support. End note.) Although the General Labor Confederation (GLC), whose leadership is close to the opposition, had called for a nation-wide demonstration to bring the entire public transportation sector to a standstill, the number of demonstrators was fairly modest and caused minimal disruption. Daily An-Nahar newspaper reported that compliance with the demonstration was highest in Beirut's southern suburbs (a Hizballah stronghold) and areas where support for the opposition is strong. (Note: GLC-sponsored labor demonstrations contributed to the outbreak of violence in Beirut in May 2008. End note.)

FINANCE MINISTRY RECEIVES WORLD
BANK GRANT FOR FISCAL REFORM

¶4. (U) On March 16, the World Bank (WB) signed a \$4 million grant agreement with the Ministry of Finance (MOF) for a two-year project to reform the fiscal administration, budget preparation, liquidity and debt management, and donor coordination. The reform measure is meant to create a more transparent framework for the management of state resources and will help decision makers in cabinet and parliament implement appropriate policies. The grant is the last tranche of a \$70 million WB grant gradually disbursed since the 2006 July war.

E-NORTH PROJECT LAUNCHES FIRST
WIMAX NETWORK IN LEBANON

¶5. (SBU) On March 14, the Ministry of Telecommunications (MOT), in
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collaboration with the Union of Arab ICT Associations and local broadband company GlobalCom Data Services (GDS), launched the e-North Project -- the first WiMAX service in Lebanon providing broadband access to northern Lebanon. This service will give internet access to a region poorly served by information networks, where many citizens have limited access to internet. This pilot project is a partnership between the public and private sector; three Internet Service Providers (ISPs) will provide free internet access to government offices, schools, and community centers, while charging affordable rates to citizens. Union of Arab ICT Associations Chairman Nizar Zakka has applied for funding from the U.S. Trade and Development Agency for technical assistance to support this project.

FIRST CREDIT BUREAU IN LEBANON
EXPECTED TO OPEN IN 2010

¶6. (U) The Association of Banks in Lebanon (ABL) announced that it expects to establish Lebanon's the first credit bureau in mid-2010. The bureau will issue credit reports on individuals and SMEs that are not covered by the Central Bank of Lebanon's (CBL) risk assessment database, which does not cover corporate loans and loans smaller than \$5300. The bureau's reports are expected to increase access to finance for individuals and businesses, and allow banks and financial institutions to expand lending and make faster and better loan decisions. The project is supported by the CBL, based on a feasibility study conducted for ABL by the International Finance Corporation (IFC).

LEBANON RANKS IN UPPER
ICT DEVELOPMENT CATEGORY

¶7. (U) The International Telecommunication Union's (ITU) Information and Communication Technology (ICT) Development Index ranked Lebanon 64 out of 154 countries worldwide and seven out of 19 MENA countries in 2009. Lebanon came in the category of countries with "upper" ICT development, while its overall score rose by 35.6% compared to the 2008 survey. The index quantifies and tracks the digital divide among economies, measuring the level of access, usage, and skills of ICT in each country. Regional general manager of Cisco Fadi

Moubarak publicly said on March 11 that ICT sector growth in Lebanon is still below potential, noting that with the availability of "true" broadband, Lebanon could play a more important role in the regional ICT sector.

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